

USING EQUITY IN YOUR HOME TO INVEST



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USING EQUITY IN YOUR HOME TO INVEST

Agenda

1. What is equity?
2. What is LVR?
3. Equity Loan Structure
4. Case Study 1 – Lump Sum Investment
5. Case Study 2 – Regular Investment Plan

WHAT IS EQUITY?

How It Works

PPR valued at \$750,000



mortgage



\$450,000 loan balance



Loan

EQUITY = PROPERTY VALUE – LOAN BALANCE

EQUITY = \$750,000 - \$450,000

EQUITY = \$300,000

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WHAT IS LVR?

How It Works

PPR valued at \$750,000



mortgage



\$450,000 loan balance

Loan

LVR = LOAN BALANCE / PROPERTY VALUE

LVR = \$450,000 / \$750,000

LVR = 60%

USING EQUITY IN YOUR HOME TO INVEST

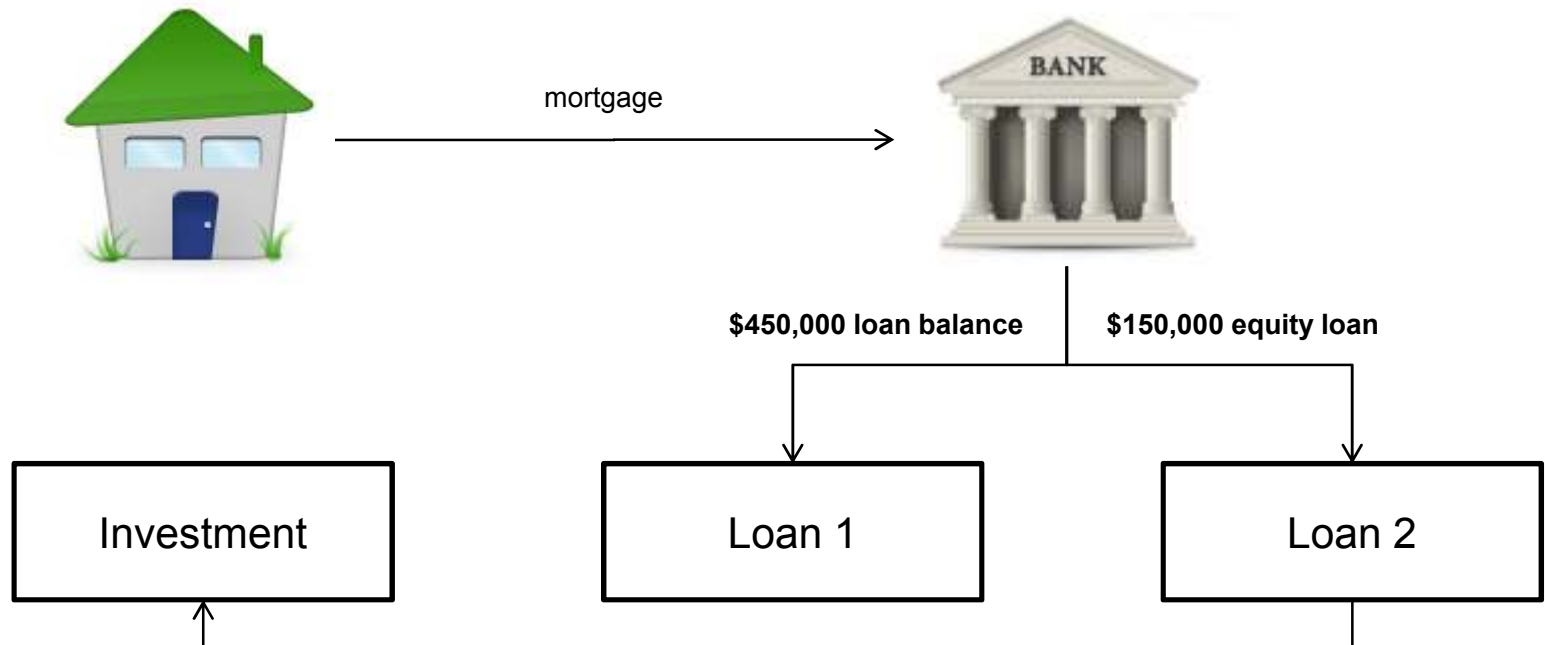
Agenda

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EQUITY LOAN STRUCTURE?

How It Works

PPR valued at \$750,000



**NOTE : NEW LVR = 80%
MUST KEEP TO 80% MAXIMUM LVR TO AVOID LENDERS MORTGAGE INSURANCE!**

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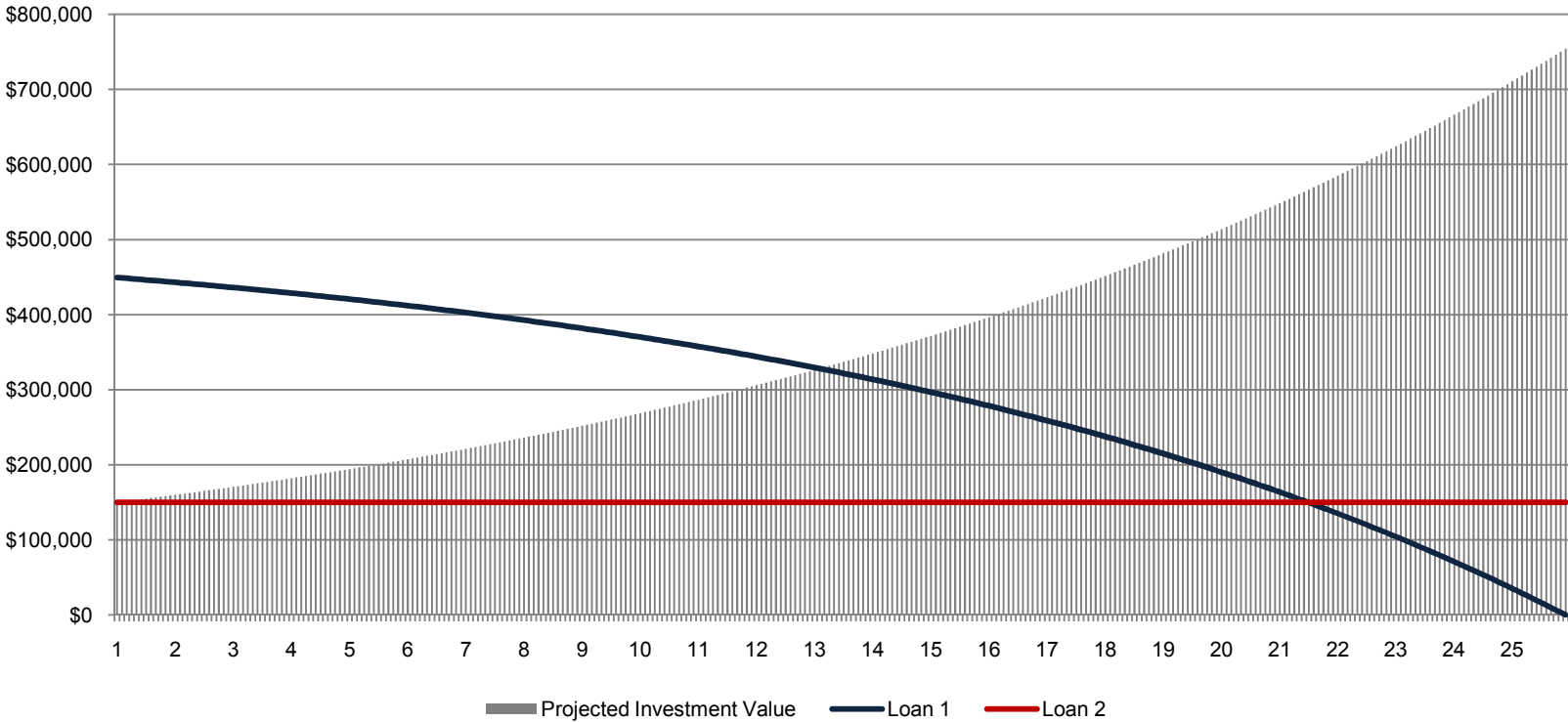
Lump Sum Investment - \$150,000

- Client marginal tax rate 38.5% (i.e. earn between \$80k to \$180k per annum)
- Opening mortgage balance \$450,000 (25 year mortgage profile)
- New Equity Loan of \$150,000
- \$150,000 Share Fund investment
- Share Fund Capital Growth Rate of 6.5% per annum
- Share Fund Income of 3.5% per annum (after-tax)

Year 1 Cash Flow

Item	Loan 1	Loan 2
Opening Loan Balance	\$450,000	\$150,000
Interest Cost @ 7.5%pa	(\$33,750)	(\$11,250)
Principal Repayment	(\$3,803)	Nil
Investment Income @ 3.5%pa (after-tax)	Nil	\$5,250
Tax Benefit of Deductible Interest @ 38.5%	Nil	\$4,331
Total Annual Cash Flow (after-tax)	(\$37,553)	(\$1,669)
Total Monthly Cash Flow (after-tax)	(\$3,129)	(\$139)

The Outcomes



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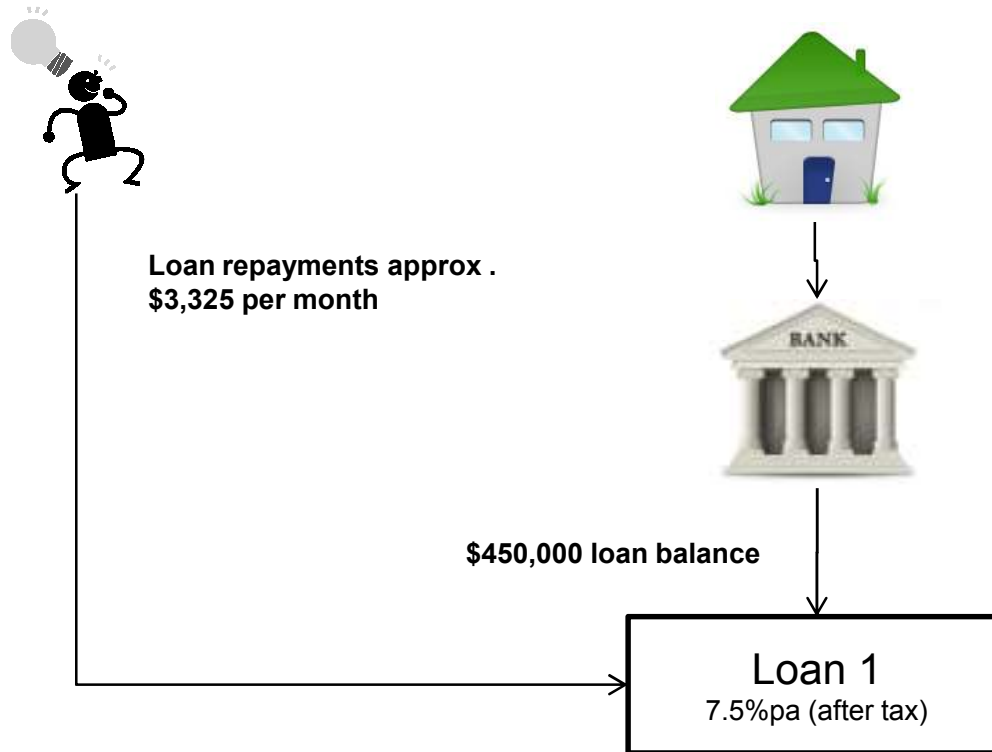
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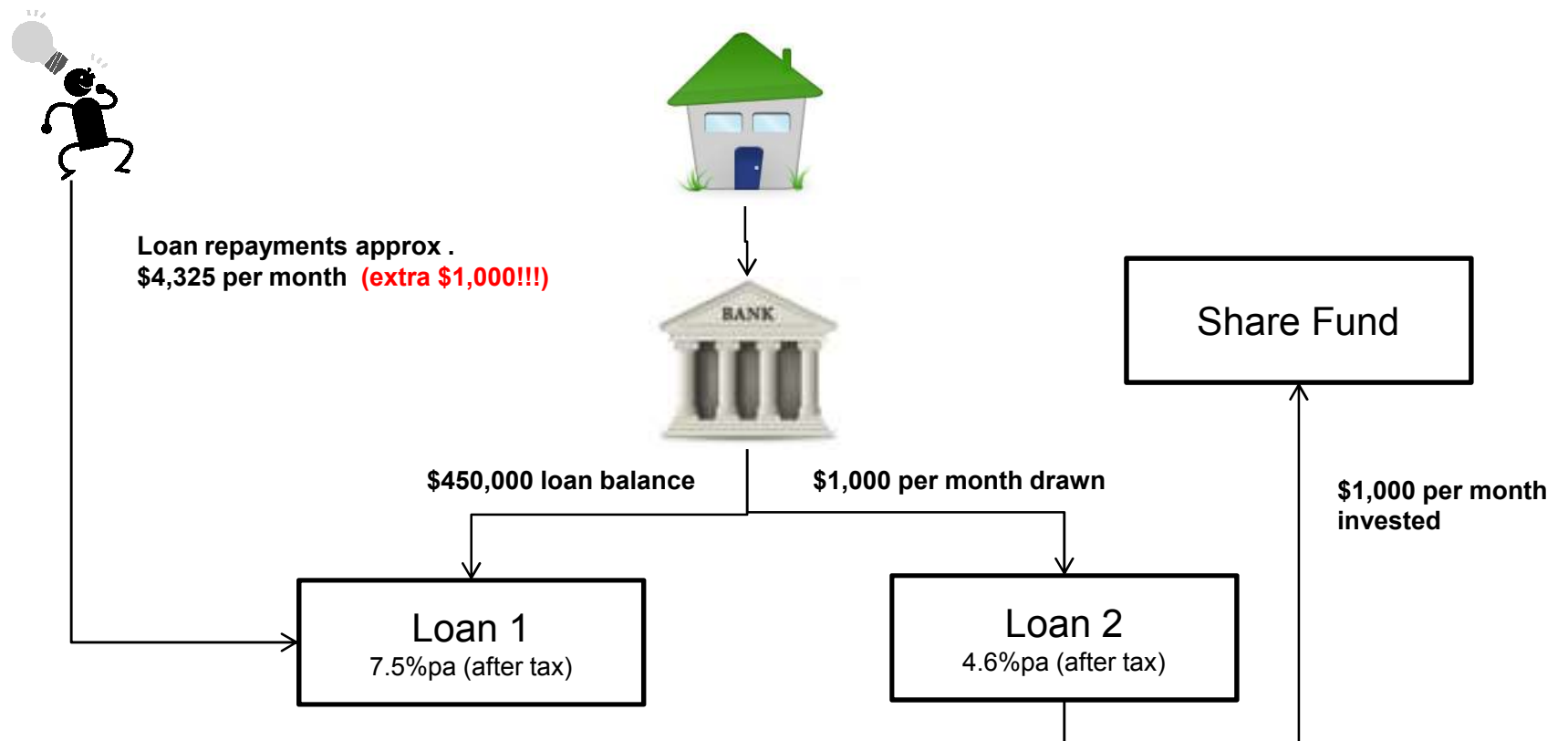
Regular Investment - \$1,000 per month

- Client marginal tax rate 38.5% (i.e. earn between \$80k to \$180k per annum)
- Recent pay increase of \$1,000 per month (after-tax) to invest...
- Opening mortgage balance \$450,000 (25 year mortgage profile)
- Borrowing rates 7.5% per annum
- Share Fund Capital Growth Rate of 6.5% per annum
- Share Fund Income of 3.5% per annum (after-tax) – paid into home loan
- Tax refunds used as extra loan repayment – paid into home loan

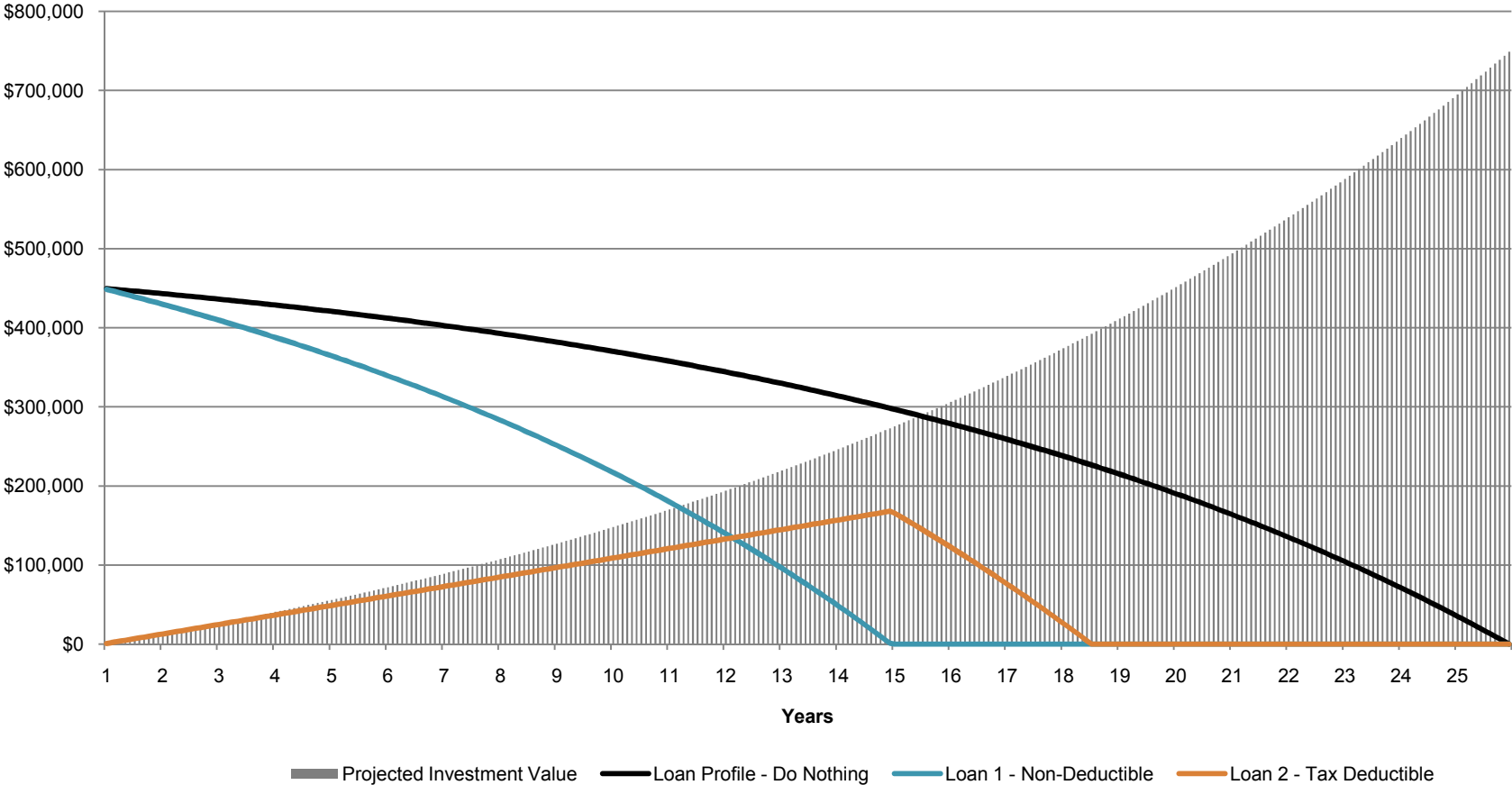
Existing Structure



Proposed Structure



The Outcomes




QUESTIONS, COMMENTS OR FEEDBACK?

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